

**Before the
Federal Communications Commission
Washington, D.C. 20554**

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In the Matter of

1998 Biennial Regulatory Review -- Streamlined Contributor Reporting Requirements Associated with Administration of Telecommunications Relay Services, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

CC Docket No. 98-171

REPLY COMMENTS OF MCI WORLDCOM, Inc.

Lawrence Fenster
Senior Economist
1801 Pennsylvania Ave., NW
Washington, DC 20006
202-887-2180

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I. Introduction

In this Notice of Proposed Rulemaking (NPRM) the Commission made a series of proposals intended to streamline contributor reporting requirements associated with the Telecommunications Relay Service (TRS), Universal Service (USF), North American Numbering Plan Administration (NANPA), and Local Number Portability (LNP) funds. The Commission premised the validity of these changes on its assertion that these proposals would not constitute substantive policy changes and would not have a significant impact on carrier contributions to these funds.¹ The record contradicts this premise.

While parties generally believe a consolidated worksheet, electronic filing, and a standardized filing date in theory ought to be more efficient than multiple worksheets, paper filings, and multiple filing dates; parties found that upon closer examination, the specific costs associated with transitioning from the present filing mechanisms to the one proposed by the Commission, would result in significant cost increases.

In the Notice of Inquiry (NOI) portion of the document, the Commission also sought comment on the costs and benefits of establishing a single billing and collection agent. Again, while many parties stated that a single billing and collection agent ought to be able to realize administrative cost savings, many that actually examined the mechanics of transitioning from the present billing and collection mechanisms to a single billing and collection agent, identified

¹Notice of Proposed Rulemaking and Notice of Inquiry, 1998 Biennial Regulatory Review -- Streamlined Contributor Reporting Requirements Associated with Administration of Telecommunications Relay Services, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms, CC Docket No. 98-171, released on September 25, 1998, at ¶¶17,29.

significant cost increases.

In summary, the record fails to identify the savings from the electronic filing, single carrier contribution method, and single billing and collection agent proposals the Commission proposes. The record also reveals that these more ambitious proposals would have significant cost impacts on both individual carriers and fund administrators. In addition to the magnitude of the impacts and the paucity of cost savings discernible from these broader proposals, parties note the Commission's failure to submit notice of possible rule changes into the dockets that originally created these funds. Consequently, the Commission may not adopt any requirements in this reporting docket that have the effect of altering policy decisions made in other dockets.

MCI WorldCom, Inc. (MCI WorldCom) recommends that the Commission limit its actions in this docket to non-substantive reporting and fund administration changes. These actions would include: 1) authorizing a single worksheet, but retaining separate methods for calculating individual carrier contributions; 2) authorizing fund administrators to engage in data sharing arrangements; 3) authorizing carriers to submit electronic spreadsheets containing their reported revenues; 4) authorizing carriers to report revenues annually at a single reporting date; and 5) authorizing carriers to request that their data be considered confidential by a simple "check-off" on the relevant form(s). If the Commission decides to standardize contribution methodology across all four funds, then the method it should employ is the net revenue method.

II. The Changes Proposed in the NPRM Would Involve Significant Policy Changes and Have a Significant Impact on Carrier Contributions

The Commission premised these changes on its assertion that these proposals would not constitute substantive policy changes and would not have a significant impact on carrier

contributions to these funds.² However, many identify substantive policy changes and significant carrier impacts. USAC notes that the earlier filing date being considered "...would place an even greater hardship on carriers."³ The USF Coalition and Ursus Telecom Corporation contend that the Commission's proposed changes would, among other things, expand the category of interstate carriers, and increase significantly the required contribution based on international revenues.⁴ Lockheed Martin IMS notes that basing contributions on a single contribution factor will not address charges for direct carrier LNP costs. (LNP billing must take care of both shared costs and direct costs).⁵ BellSouth and GTE both express concern that a complicated electronic filing system will impose additional costs on carriers.⁶

The most substantive effect on carriers involves the Commission's proposed application of the end user revenue method for calculating individual carrier contributions to TRS and NANPA. The Commission contends that calculating individual carrier contributions to all funds using the end user revenue method is a non-substantive change since the end user revenue method is as competitively neutral as the net revenue method. The Commission also implies that any increases in individual carrier contributions by this change will be offset by administrative cost savings.⁷

²"In subsequent portions of Section III, we propose several limited changes to the rules governing contributions to TRS, NANP, universal service, and LNP to facilitate use of the unified data collection worksheet." Notice at ¶17.

³USAC at 2.

⁴USF Coalition at 3; Ursus Telecom Corporation at 3.

⁵Lockheed Martin IMS at 3.

⁶BellSouth at 8; GTE at 4.

⁷See Notice at ¶42.

Neither claim is correct.

The end user revenue method is not as competitively neutral as the net revenue method. Although the end user revenue method avoids double counting of revenues, it actually imposes a greater recovery risk on carriers operating in competitive markets.⁸ Switching TRS and NANPA to the end user revenue method will also impose costs on interexchange carriers that are substantially greater than any identified administrative savings. Table 1, below, shows that interexchange carriers' share of contribution to these funds increases from 27 percent to 41 percent if end user revenues are used, while local carriers' share drops from 56 percent to 43 percent. Because administrative costs are likely to grow over time, this significant change in contribution share has the potential to impose a tremendous burden on interexchange carriers. If the Commission is reevaluating its recovery mechanisms in light of competitive neutrality, MCI WorldCom strongly urges the Commission to adopt the net revenue recovery method for the four funds under consideration in this docket.

III. The More Expansive Changes Proposed in the NPRM Will Increase Costs of Fund Administration

The Commission justifies the "minor" increase in contributions individual carriers will incur by pointing to the administrative savings carriers, and especially fund administrators, will realize from its proposed rule changes.⁹ However, the record shows that all the fund

⁸As MCI WorldCom noted in its Comments: "ILECs will more likely recover their costs for contributing to these funds through regulated rates. IXC's, and other carriers that compete for customers on the other hand, suffer the consequences in the market when it raises its consumer rates and therefore are less likely to recover all their costs of contributing to these funds." MCI WorldCom at 8.

⁹Notice at ¶34.

Table 1
Impact of Calculating Carrier Contributions
for TRS and NANPA Funds Using End User Revenue Method
(\$million)

Carrier	Telecom Revenue	End User Revenue	Net Revenue	Share of Contribution		Total Contribution*		Effect of Moving to End User Revenue
				End User Revenue	Net Revenue	End User Revenue	Net Revenue	
Local	107,937	79,075	107,937	43%	56%	19	25	-6
Wireless	32,808	30,068	32,808	16%	17%	17	18	-1
IXC	88,106	76,887	52,638	41%	27%	19	12	+7
Total	228,850	186,030	193,383	100%	100%	45	45	0

*TRS + NANPA estimated to be approximately \$45 million. Sources: *Telecommunications Industry Revenue: 1997*, FCC, October 1998, and NANPA.

administrators, as well as many carriers, believe that the more expansive changes proposed by the Commission would not yield cost savings. USAC notes that "additional costs and time will be required if the Commission requires the ability for carriers to view already filed worksheets on-line."¹⁰ NBANC contends that the Commission's proposals will increase its administrative costs and require additional time in order to "ensure that carriers contribute appropriate amounts...."¹¹ Lockheed Martin IMS observes that an on-line electronic filing system will prevent the LNP administrator from using this filing system for billing and collection functions.¹² Many carriers also question whether they will achieve administrative cost savings if they implement the

¹⁰USAC at 3.

¹¹NBANC Comments at 7.

¹²Lockheed IMS at 2.

Commission's proposals.¹³ Those commentators best positioned to understand potential cost savings have found ample reason to doubt that the proposals will produce their intended effect. The Commission should conclude the same.

IV. The Record Does Not Presently Support a Single Billing and Collection Agent

The NOI portion of the document seeks comment on the desirability of having a single billing and collection agent. A plurality of parties failed to comment on the desirability of having a single billing and collection agent.¹⁴ Of the remainder, most stated costs would either increase or were unable to identify cost savings. There is no record to support moving to a Notice on this issue. If anything, the comments reveal that each fund, and its administration, presents unique issues. The calculation of LNP bills is complicated and requires a high degree of specialized contact between the collection agent and carriers, and so does not carry over to collection for the other funds.¹⁵ USF also has specialized exemptions that reduce the desirability of a single billing and collection agent. Allocating the common costs of a single billing and collection agent among the various funds also raises the possibility of complicated, costly solutions. Allocating common billing and collection costs should be done on a cost causative basis. But cost causation is not linked solely to the number of revenue entries required by each fund. For example, a fund that has

¹³See NECA at 4. "...electronic filing could be an expensive or prohibitive administrative burden on small carriers." See also, BellSouth at 8; GTE at 4; MCI WorldCom at 6; United States Cellular Corporation at 3; CTIA at 5.

¹⁴These parties are: STAR Telecommunications, Ursus Telecom Corporation, USF Coalition, Blooston et. al., AT&T, United States Cellular Corporation, SBC, Omnipoint, and GTE.

¹⁵Lockheed Martin IMS at 6. However, administrative cost savings may arise in connection with less complex functions of bill disbursement and collection. Lockheed Martin IMS should not automatically reject any involvement with a third party billing and collection agent in the future.

few lines of data entry may have a high incidence of carrier contact with a fund administrator.¹⁶

In addition, if one entity is granted the duties of administering all funds in perpetuity, the Commission would eliminate the possibility that other entities will bid and win the right to administer these contracts in the future, thereby reducing efficiency discipline on fund administrators.¹⁷

V. The Commission May Adopt Narrow Changes Strictly Limited to Reporting the Revenues Required for Each Fund as Currently Constituted

The record shows that the Commission's proposed changes in the NPRM and NOI: involve substantive policy changes, have significant impacts on individual carrier contributions, and do not reduce, and possibly increase, administrative costs for carriers and fund administrators. In light of the substantive negative impacts, the speculative nature of administrative savings, and the Commission's failure to notify all affected parties of possible rule changes, the Commission must limit actions in this docket to non-substantive reporting and fund administration changes. These actions could include: 1) authorizing a single worksheet, but retaining separate methods for calculating individual carrier contributions; 2) authorizing fund administrators to engage in data sharing arrangements; 3) authorizing carriers to submit electronic spreadsheets containing their reported revenues; 4) authorizing carriers to report revenues annually at a single reporting date; and 5) authorizing carriers to request that their data be considered confidential by a simple "check-off" on the relevant form(s).

¹⁶See CTIA at 7; Lockheed Martin IMS at 6; NBANC at 7; NECA at 5; USAC at 5; Bell Atlantic at 5; and USTA at 4.

¹⁷MCI WorldCom at 9.

Permissible changes would not include permitting telecommunications providers to file a single worksheet for all common-controlled entities, as proposed by Bell Atlantic and BellSouth.¹⁸ The Commission's TRS, USF, and NANPA rules currently require carriers to file a separate report for each legal entity, and for good reason.¹⁹ The 1996 Act requires Bell Operating Companies (BOCs) to establish separate subsidiaries and maintain separate books, records and accounts for manufacturing, interLATA communications services, and interLATA information services in order to protect ratepayers, consumers, and competitors against the effects of improper cost allocation and discrimination.²⁰ The "minor" modification proposed by Bell Atlantic and Bell South has substantial policy implications and should not be adopted.

VI. The Commission's Proposal to Alter the Minimum NANPA and TRS Contributions is Another Example that the End User Revenue Method is Not the Most Competitively Neutral Method of Determining Contributions

In its Notice, the Commission recognizes that moving from the gross revenue method that governs TRS contributions and the net revenue method that governs NANPA contributions — to the end user revenue method, would exempt carriers that do not have end-user revenues from making any contributions towards TRS and NANPA, a violation of §§ 254(d) and 251(e)(2) of the 1996 Act. The Commission therefore proposes a minimum contribution of \$100 for carriers that operate exclusively as wholesalers. These carriers may have substantial revenues and would make substantive contributions to the TRS and NANPA funds under the net revenue method, yet

¹⁸Bell Atlantic at 4; BellSouth at 10.

¹⁹See TRS Form 431, Appendix A at 3; USF Form 457, Instructions at 4; NANPA Form 496, Instructions at 1.

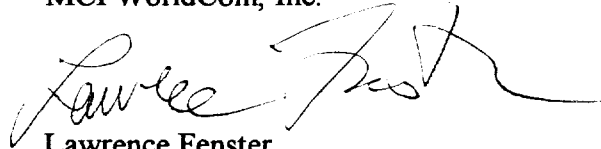
²⁰§§272(a)(2) and 272(b).

they will now make minimal contributions, out of relation to their actual revenues, as a result of the Commission's desire to consolidate telecommunications revenue reporting. By adopting the end user revenue method and this practice of apportioning *de minimus* contributions to pure wholesalers, the Commission has inadvertently favored wholesalers over resellers and providers of services to end-users, in violation of the 1996 Act and its own precedents to adopt rules that are competitively neutral. The Commission should take this opportunity to reconsider its choice of the end user revenue method, and adopt net revenue as a more competitively neutral method of calculating carrier contributions to the TRS, NANPA, LNP, and, USF funds.

VII. Conclusion

For the above-mentioned reasons, MCI WorldCom encourages the Commission to adopt its recommendations discussed in these Reply Comments.

Respectfully submitted,
MCI WorldCom, Inc.

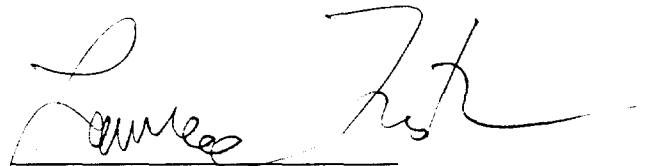
A handwritten signature in black ink, appearing to read "Lawrence Fenster", is written over the typed name.

Lawrence Fenster
MCI WorldCom, Inc.
1801 Pennsylvania Ave., NW
Washington, DC 20006
(202) 887-2180

November 16, 1998

Statement of Verification

I have read the foregoing and, to the best of my knowledge, information and belief, there is good ground to support it, and it is not interposed for delay. I verify under penalty of perjury that the foregoing is true and correct. Executed on November 16, 1998.

A handwritten signature in black ink, appearing to read "Lawrence Fenster", written over a horizontal line.

Lawrence Fenster
1801 Pennsylvania Ave., N.W.
Washington, D.C. 20006
202-887-2180

Service List

I, Barbara Nowlin, do hereby certify that a copy of MCI WorldCom's Reply Comments has been sent by United States first class mail, postage prepaid, hand delivery, to the following parties on this 16th day of November, 1998.

Scott Bergmann*
Industry Analysis Division
Common Carrier Bureau,
2030 M Street, N.W., Room 500
Washington, D.C. 20554.

Catherine Wang, Russell M. Blau
Swidler Berlin Shereff Friedman, LLP
3000 K Street, NW
Suite 300
Washington, DC 20007

International Transcription Service*
2100 M Street, NW
Suite 140
Washington, DC 20037

John Prendergast
Blooston, Mordkofsky,
Jackson & Dickens
2120 L St., NW, Ste 300
Washington, DC 20037

John L. Traylor
1020 19th St., NW
Suite 700
Washington, DC 20036

Judy Sello
AT&T Corporation
Room 3245I1
295 North Maple Avenue
Basking Ridge, NJ 07920

Leander R. Valent
Counsel for Ameritech
9525 West Bryn Mawr
Suite 600
Rosemont, IL 60018

Hope Thurrott
SBC Communications Inc.
One Bell Plaxa, Room 3023
Dallas, TX 75202

R. Edward Price, Peter M. Connolly
Koteen & Naftalin, L.L.P.
1150 Connecticut Ave., NW
Suite 1000
Washington, DC 20036-4104

Mark J. O'Connor
Piper & Marbury L.L.P.
1200 19th Street, NW
Suite 700
Washington, DC 20036

Andre J. Lachance
GTE Service Corporation
1850 M Street, NW
Suite 1200
Washington, DC 20036

Linda L. Kent
United States Telephone Association
1401 H. Street, NW
Suite 600
Washington, DC 20005

Richard A. Askoff
National Exchange Carrier
Association, Inc.

Robert Haga
Universal Service Admin. Co.
1201 Pennsylvania Ave., NW
Suite 300
Washington, DC 20004

John A. Ricker
NBANC
100 S. Jefferson Road
Whippany, NJ 07981

Michael F. Altschul
Cellular Telecommunications Industry
Association
1250 Connecticut, Ave., NW
Suite 200
Washington, DC

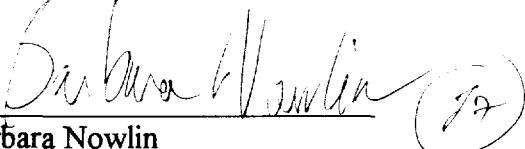
Cheryl A. Tritt
Morrison & Foerster, L.L.P.
2000 Pennsylvania Ave., NW
Suite 5500
Washington, DC 20006-1888

Christopher T. McGowan
Dickstein Shapiro Morin &
Oshinsky L.L.P.
2101 L Street, NW
Washington, DC 20037-1526

Joseph DiBella
1320 North Court House Rd.
8th Floor
Arlington, VA 22201

Stephen L. Earnest
BellSouth Corporation
Suite 1700
1155 Peachtree Street, NE
Atlanta, GA 30309-3610

* Hand Delivered


Barbara Nowlin